



Paving the Way Forward for Rural Finance
An International Conference on Best Practices

Case Study

**Agricultural Lending Practices:
Non-Financial Services with Financial Products**

Financiera El Comercio S.A.E.C.A.

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OUR MISSION

We are an organization oriented to achieve our clients' satisfaction. We facilitate the use of reliable, accessible and opportune financial service. We respond and impact in the environment to achieve a sustained growth, creating new possibilities for business, promoting responsibility, and participating in community development.

We have initiated our financial activity 27 years ago and we have ventured into the rural and agricultural micro-credit for 12 years now, without any help from donors, having gone through a successful path with our own resources, regrettably, because had we had the help from donors, we could have reached many more micro-entrepreneurs. Thus the learning was slow and costly.

To have donors would have represented for us to have the means for training micro-entrepreneurs as well as our sales people. Also, to help unions that can cooperate with lowering costs and efficient production, which would have resulted in more people using our banking facilities, thus taking them away from getting black market credits at very high rates.

Taking into account that our country has 5,000,000 plus inhabitants, we have 21,000 clients, which we consider to be an interesting figure. Of them, 20,500 correspond to micro-financial clients. 48,29 % of our clients are in the rural area and the portfolio has a desertion rate of 23%.

The savings that we mobilize for financing of this portfolio adds up to approximately US\$6,000,000 distributed in 2,381 account numbers. Volume of credits paid adds up to an annual sum close to US\$7,500,000.

The methodology used is "Individual".

The quality of the portfolio is much better than the market average that gets to a delay of 17%. Ours is a little more than 10%. The sectors that are not supported by these credits are the micro-entrepreneurs from urban-rural and agricultural areas, and people of low income that hold jobs with dependency relationships.

The Comercio Financing Company started its financial activities twenty seven years ago, financially supporting other corporations during a growing economical period while the world's biggest energy generator, the Itaipú dam, was being built.

The Company initiated its activities with the following products at the time:

Capital Accumulation, in a stable market, without money depreciation and very low inflation. The Paraguayan currency kept its value during 25 years, creating the conditions for long-term investment in local currency.

Commercial Loans, the resources seized were invested in commercial loans within a segment, we insist, that grew and pay back its loans without any inconveniences. This product, as expected, suffered in its growth and we had to search for other possibilities in different markets and sectors.

Year	Commercial Loans Portfolio (USD)
2000	4.892.104
2001	4.087.647
2002	2.578.730

Personal Banking Services, this was the segment where we found new possibilities for growth and we designed products described as follows:

- Personal loans, product addressed to employees with monthly payback possibilities;
- Credit cards (One for “local use” within the Paraguayan territory, with the particular attraction of its lesser operational cost and the stricter control of its use within the line and the possibility of addressing to segments of lower income. Another for “International use”, a well known credit card in two versions: “Classic” and “Gold”, both belonging to the Mastercard system.

In those times, Paraguayan economy was strongly based on being an intermediary for international market luxury items (perfumes, cigarettes, liquor, electronic goods, silk fabrics, etc.) which rendered excellent profits even for taxes, but one could see that this was a mere opportunistic situation for rent seeking.

In this context, Financiera El Comercio anticipates the future, and since 12 years ago it launches its pilot plan in a very prosperous agricultural zone in the country, to work and learn about a new product: Rural and Agricultural Micro-Credit: we offer our clients Farming Credit lines, which are used for soil preparation, to buy seeds, fertilizer and other items, to clean cultivated lots, machinery repair, and a last stage which would be for credit needed for harvest.

Credits are granted to small farmers in the rural area who are dedicated to producing soy beans, sunflower, oats, corn, banana, pineapple, rice, etc. The impact that this type of loans causes can be quantified with a clear example, which is the case of a banana producer who is located in a region with a scarce raining system and who has accessed to a loan to acquire a watering system, which increased and stabilized his production by 12%.

During all this time, we have supported our clients by facilitating needed credits that got to them on time without taking time off from work and leaving their tilling fields in order to go to the office to apply for credit.

Our credit officers perform visits on a permanent basis to monitor credits given so our clients make adequate use of the resources furnished, thus fulfilling their investment programs given to us in advance.

In the learning stage we understood the need to counsel our clients toward diversification of activities, because of the fact that in our country we do not have an Agricultural Insurance nor a system for artificial watering nor other items that would help minimize the risks in the agricultural sector.

The experience acquired during our learning years lead us to develop a new product that will allow the farmer to diversify his activity. We have designed a product directed to finance dairy production, yielding a daily income that lets the user to pay his/her credits back in a monthly installment fashion. An example of daily production would be the dairy production area, which acts as a complementary activity to that of the crops, thus providing the client and the credit company with more security.

A dairy producer extracts an average of 200 liters of milk per day which means a daily income of 25 US\$, plus any other income the client may get from his/her crops.

We also finance the purchase of cattle, milking machines, coolers, and general machinery. We have also had to design a credit product destined to purchase agricultural machinery, to a longer term than that of harvest time, because the Rural Micro-entrepreneur does not usually receive offers of this kind either.

At the same time, we had to offer our clients from this sector lines to solve their needs for fixed actives as deposits and installments that will let them back up their products. Likewise, we offer financial lines to our clients for cattle fattening, with payment on term, and lines directed to supplement in case of deficit caused by adverse climatic conditions. These credits are destined to purchasing cattle, which is fattened and sold in a period no longer than 6 months, having as benefit the difference in the added weight acquired by the animal during this period.

With all this variety of products that we offer our clients, we cover the perils associated with agricultural loans.

Financiera El Comercio serves its potential clients:

1. Through branches established in strategic sites covering all Paraguay. The company has 6 rural branches, 3 urban branches, and 2 branches located in urban sectors that also serve rural and agricultural zones;
2. Company directors and managers visit and are constantly being informed about activities in the rural/agricultural area and seek to make agreements with storehouses. Through contact with storehouse owners, we will be able to get to small farmers in distant places, far from our offices, avoid having to go through distances longer than 300 kilometers on dirt roads, facing communication problems, due to the fact that in the Paraguayan countryside, besides Spanish, Guarani is the usual language spoken by farmers.

Within Paraguay and especially in agricultural zones, there are farmers of Brazilian background, so Portuguese is another language spoken in farming country. Mennonite

farmers are also found in agricultural zones. They have their own dialect which stems from German.

For the part of the population that is below primary rural zones, it is necessary to get support from donors for training required for not only officers that will work with us towards this goal, but also for the clients themselves.

The potential risks are very high if a good training and awareness job is not done to promote cooperation among farmers to reach the most important goal, which is to look for a market for their products. Sustainability will not be possible with the company's own funds, mostly while we are in an economic situation where we have been recording negative numbers for economic growth for the last 5 years.

Economic Chart

The whole active portfolio of Financiera El Comercio is financed by seizure of deposits and credit lines with market interests that are directed to micro-businesses, i.e., BID funds, the Industrial Development Fund, and the Spanish Cooperation. We do not have any donors' credits to finance our portfolio.

All that Financiera El Comercio has in microfinance is its long experience with the Rural and Agricultural sector, which has been accomplished through its own resources. Only recently, in the year 2002 (eleven years after our experience has initiated) we have qualified for a FOMIN which is helping us to convert all our empirical knowledge into appropriate techniques in order to mass produce with better reliability to all productive sectors in the country. FOMIN is a multilateral investing fund constituted by the Inter American Development Bank, which supports us with a non-reimbursable credit of US\$ 3000,000 to strengthen the company as an institution with a counterpart from our company of US\$ 276,000.

Introductory Information

Our program differs from all others and brings to the Rural and Agricultural micro-enterprise the first experience of this type of credit from the private sector and it is today the most widely known.

These credits, without the wide range that Financiera El Comercio gives, used to reach small producers through public institutions such as Banco Nacional de Fomento and the Agricultural Credit for Habilitation, which have left very bad results, because they gave credits with subsidized rates, made forgiveness of debt, and with large interests for political ends. All of this plus the loss of time that farmers suffered in the offices, coming from long distances, and having to wait for solutions, receiving sometimes approval for credits when harvest was already on hand.

Results and Impact

The methodology used by Financiera El Comercio in order to reach the micro-producer by adapting ourselves to the production cash flow has given us very good results and it answers to market demands even though it can always be perfected.

Even though we do not count with a true measure of the social impact in education and nutrition, we can say that the communities that have received credit assistance from our firm have grown noticeably, taking into account the improvement in volume of products.

For example: we have a banana producer who has:

1. Diversified his production with pineapple, milk derivatives, watermelon, construction supplies, and even produces food for his own consumption.
2. Increased his production volume
3. Been an example to the community and has helped others to produce the same products he generates, all getting benefits from the sale of their products. A community where we have started to help at the beginning produced 1,000 liters of milk daily. Today this same community produces 32,000 liters of milk daily.
4. Our financing went to a primary dairy processing plant and currently, in the same community, there are 10 similar plants.

In the country, we have important international-based dairy processing plants such as PARMALAT and other firms with very good levels of quality that demands that producers maintain a high quality level for their products. Our clients have reached that level and are constantly upgrading.

Opening branches in rural areas has made possible to hire university students who did not have any access to a first job. Today these people have graduated, and, besides earning a salary that allows them to have a dignified life, they are getting a solid training thanks to the support of FOMIN and the contract with INTERNATIONAL ACTION as advisers.

At this point, it is important to mention that unemployment levels in Paraguay are 16% actual and 21% effective, and these figures are getting even higher daily. Our firm has permitted these young people who are our officers and clients stay close to their homes and escape from migrating to the Capital city looking for jobs. Operative costs are very high. We have already pointed out the inconveniences of reaching our clients, still getting very low volumes, and we even have some branches that only as of April 2003 have reached their break-even point.

We have a very high financial sufficiency which permits us to say that in 27 years we have never refused any financial operation.

Challenges with Project Implementation

The methods used to face the challenges are mainly the faith of a sector of high direction with a great convincing knowledge of the rural area. This high direction team will start by getting the Board of Directors enthusiastic about focusing its efforts to a new working zone. This implies a long learning period, product maturation, and its subsequent delay in profit returns.

Once the whole firm is committed to the business, market niches and new products are searched, and development of such is started. The whole program must be very closely

monitored by project managers through its Board of Directors, effectuating frequent visits to client attention centers, as well as visiting the clients themselves. Project managers must be aware of market developments, be informed even of the evolution of agricultural products in international markets, and be able to advise clients on investment matters.

All officers of the financial firm involved in the development of this product must be sufficiently and constantly trained, from familiarizing themselves with tools such as computers supplied by the firm, to learning about farming periods, production costs, farm suppliers, better roads to market produce harvested, so that they can use this knowledge toward financial sectors.

It is very useful to know who are the successful producers so that they can be connected to those who do not reach the same production levels, so they can also grow. It is important to take into account that nothing can replace hands-on experiences, most of all, good experiences. 27 years of experience in the field is a great contribution to the Financiera El Comercio, where it gained its own space and has allowed it to overcome great crises such as the crisis the financial system has been enduring for the last 7 years, when more than 40 firms that took inadequate risks, or have operated in a deficient way, have disappeared. This helped us to seize savings at competitive prices and in sufficient quantities that revert to loan clients.

Policy and Donors Recommendations Based on Our Experience

One of the first recommendations that we can humbly make is that donors carry out their agreements with institutions of the regulated sector, and these with enough experience in the market, private institutions, of course, not public ones, because in our country, donations have been received which were manipulated by political interests. This scenario is totally unadvisable to carry on any such activity.

Even though this does not apparently result in any benefit for us, we would never advise to donate without a counterpart of the institution which is on the receiving end of the donation. This will make that the investment performed with money donated will find an appropriate and profitable orientation.

It is important to have a vocation, as the rural and agricultural credit involves additional hardships, such as long trips, poor lodging, diversity of cultures and even different languages. The best way to recommend a change to which the producer does not generally adhere to is to agree to support technicians that help farmers to get a better productivity and that these national or international technicians will take the time needed to learn about the current practices used. Once a technician leads to a change, it will be necessary to accompany the producer that has made the change until he gets successful at it.

Final Conclusions

We conclude that donors should choose a country such as ours in order to focus their help here, as these are countries that really need help in this area. There is much to be done,

where public institutions created to give credit are disappearing, for they are following the way this type of institutions around the world is going, to give way to private activity.

In addition, other conditions such as the richness of the soil, Paraguayan people's docility and desire to learn and be happy with well-directed help, will necessarily yield good results.